

Modern Day Slavery in Your Supply Chain

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ABSTRACT

Modern day slavery is a huge problem in supply chains. Estimates place the number of workers living in slavery conditions between 17-21 million worldwide. This problem is growing rather than shrinking even though countries have laws that prevent slave labor and some countries and states have laws that require reporting on audits of their supply chains. Why do we have this problem and what can we do to fix it? This paper addresses the issue and some recommendations to fix this global problem.

Keywords: supply chain, ESG, DEIB, modern day slavery, ethics

PROBLEM

Slavery still exists in the world today. Today's slavery is very prevalent in supply chain activities. With the push to minimize costs comes the growing issue of forced labor in supply chains to minimize or eliminate labor costs. When was the last time that you walked your entire supply chain and looked at all of your suppliers? Do you know what your suppliers are doing? Do you know what your suppliers' suppliers are doing? Are you confident that your supply chain is free of forced labor? Are you confident that the products you use everyday were not made by modern day slaves?

BACKGROUND

Slavery exists in today's supply chains and many consumers and supply chain professionals either do not know about it or turn a blind eye to it in order to protect low costs. Before looking into modern day slavery, perhaps we should start with defining slavery and looking at a quick history of slavery.

What is slavery? According to multiple sources it is a "condition of being enslaved, held, or owned as human chattel or property; bondage." Is that really happening in the 21st Century in supply chains? How is that possible? Didn't we abolish slavery around the world in the 19th Century?

In a 2021 blog (Traliant, 2021), Anti-Slavery International defined modern-day slavery in supply chains as: "the severe exploitation of other people for personal or commercial gain. Modern slavery practices include:

- Forced labor, where a person is forced to work against their will or under the threat of punishment
- Bonded labor, where a person cannot leave because they are bonded or indebted
- Indentured labor, where agencies or brokers put people into debt with no other way to pay it off but to continue to work

- Child labor, where children are exploited for the gain of adults who are not family members.”

Slavery is documented in history books back to at least 1800 BC when the Israelites were enslaved in Egypt. It continued for the next 3600 years in various forms from the Romans up to the mid-1800s in the US and even through the 1940s with slave labor camps used by the Nazi Regime to support their war efforts. In the US although the Emancipation Proclamation freed the slaves, it was not until two years later that the 13th Amendment to the Constitution was ratified abolishing slavery. The 13th Amendment stated, “Neither slavery nor involuntary servitude, except as a punishment for crime whereof the party shall have been duly convicted, shall exist within the United States, or any place subject to their jurisdiction” (USA, 1865).

In 2022, the European Union established an annex to the DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937 that laid out violations to International Human Rights. This annex included “Violation of the prohibition of forced labour; this includes all work or service that is exacted from any person under the menace of any penalty and for which the said person has not offered himself or herself voluntarily, for example as a result of debt bondage or trafficking in human beings....Violation of the prohibition of all forms of slavery, practices akin to slavery, serfdom or other forms of domination or oppression in the workplace” (EU, 2022).

The German Supply Chain Due Diligence Act of 2023 requires companies of over 3000 employees (in 2024 it will apply to companies of over 1000 employees) to map their supply chains down to tier 2 and tier 3 suppliers for compliance with human rights and sustainability issues (Ruiz, 2023).

The use of forced labor or modern-day slavery has been an ongoing issue in manufacturing and in supply chain activities. The goal of this research paper is to document what is happening in supply chain chains, what has been written on the subject and frame some conclusions and recommendations on what supply chain managers need to do going forward to document, validate and eliminate this problem.

LITERATURE REVIEW

What has been written to date on this topic? What does the research show as common threads in the modern-day slavery?

Koettl makes a clear dichotomy between consensual and non-consensual exploitation of individuals. In his work, he puts workers that are not in the sex trade as consensual. In this realm he places those individuals that economic issues force into exploitive work arrangements. His estimate places a “minimum of 12.5 million workers annually” that are forced to accept exploitive work or working conditions (2009). He further defines this category of exploitation to include forced labor (“put to work against their will, often under deplorable and unsafe conditions”). By 2017 the International Labour Organization estimated that the number of workers exploited as modern-day slaves had reached 16 million (Enumah, 2018).

Modern day slavery in supply chains supporting US business was discussed in 2011 (Pierce, 2011) and 2012 (Ngwe & Elechi, 2012). Pierce discussed the fact that US corporations were

perhaps turning a blind eye to modern day slavery (2011). Pierce estimated that the number of persons enslaved in 2011 was higher than the total number of slaves at the “height of the Trans-Atlantic slave trade. Although the US Congress passed the Trafficking Victims Protection Act in 2000, the problem continues to exist and grow.

“Despite growing awareness of the issue and an influx of resources for such influential bodies as the United Nations and other intergovernmental organizations, foundation, and the US government, the field is still hampered by its inability to measure the size and scope” of modern-day slavery according to McGough (2013). Although outlawed in almost every country, McGough goes on to say that slaves in today’s supply chains are held through debt bondage, indentured service and other forms of physical and mental control.

In 2015, The United Kingdom established the UK Modern Day Slavery Act. This act was designed to “give law enforcement the tools to fight modern slavery, ensure perpetrators can receive suitably severe punishments for these appalling crimes and enhance support and protection for victims” (Government, 2015). Much like the German Ordinance, the Act requires businesses over 12,000 to disclose each year what action they have taken to ensure there is no modern slavery in their business or supply chains (Craig, 2017). Research in the UK into how many companies believed by 2016 that there was slavery in their supply chains was 71% (Eight, 2016). Craig stated that the biggest issue in enforcing the Modern-Day Slavery Act was a lack of training for the agencies and individuals tasked with enforcing the Act (2017). Corrie argued that the International Criminal Court should get involved in prosecuting agencies, organizations and individuals involved in modern day slavery (2016).

“Despite increased global attention, resources and regulations, 10 million more people were living in slavery conditions in 2021 compared to 2016. Of the 50 million people worldwide living in slavery — owned by another human being — in 2021, 28 million are trapped in forced labor” (Touchon, 2023). The International Labor Organization estimates that the majority of those in forced labor are surprisingly in high to moderate income countries (2022). The use of force labor is rapidly becoming a standard practice in many supply chains and undermines sustainable growth in supply chains. The latest update from an international corporate sustainability index shows that only about 11% of the companies reporting actually map their supply chain in sufficient detail to know if modern day slavery exists within their extended supply chain (EcoVadis, 2023).

Governor Arnold Schwarzenegger signed the California Transparency in Supply Chains Act in 2010 that mandated publishing information on companies’ supply chains “to allow consumers to make more educated purchasing decisions” (Bolta, 2023) by educating the consumers on what companies were engaged in using modern day slavery and human trafficking in their supply chains. The intent of this act was “to ensure that large retailers and manufacturers provide consumers with information regarding their efforts to eradicate slavery and human trafficking from their supply chains, educate consumers on how to purchase goods produced by companies that responsibly manage their supply chains, and, thereby, improve the lives of victims of slavery and human trafficking (Bolta, 2023).” This act was intended to force companies to do audits of their supply chains and certify that their suppliers were not using slave labor. However, this act only applied to companies doing business in California with gross incomes in excess of \$100 million (Harris, 2015). The downside of this act is although it requires

reporting on the company's website, it only requires the large companies to describe what they are doing to determine the use of slave labor by their suppliers and not the actions to eradicate the use of slave labor. This act also only required the certification of direct suppliers also known as Tier 1 suppliers and not the actions of lower-level suppliers.

De Witte (2022) reported, "Modern slavery, forced labour and human trafficking continue to be endemic issues in global production and manufacturing, especially in low-wage, labour-intensive industries. Despite governments and private corporations to put an end to exploitative employment practices, the problem persists across the world's supply chains." De Witte goes on to say that modern day slavery is prevalent in "chocolate to coffee, smart phones, clothing and cotton" industries.

The World Economic Forum (Sethumadhavan, 2021), reported that modern day slavery is rife in the developed world. Sethumadhavan goes on to say there are more than 1.5 million people living in conditions of modern slavery in Australia, Japan, Europe and North America. How does this happen in developed countries? Probably because it is profitable. The International Labour Organization estimates that modern day slavery in supply chains generates approximately \$51 billion USD in profits annually (ILO, 2014). Obviously that number has gone up over the past decade with the growth of international supply chains and the push to keep costs down.

Han, et al., (2022) stated that "modern slavery is a complex and challenging phenomenon" across global supply chains. They reported that modern day slavery is embedded in the Southeast Asia electronics industries and the offshore fishing industries in spite of the fact that many of those countries have laws on the books prohibiting modern day slavery.

Antislavery.org estimates that the size of the modern-day slavery issue could be as high 17.3 million people in supply chains (2023). Part of the blame for this large number of slave labor workers points to the desire and demand of consumers to drive down prices. The anti-slavery organization also blames long, extended global supply chains that enable hiding practices from consumers for the continued growth of modern-day slavery.

The British Chartered Institute of Procurement and Supply (CIPS) estimates that there are as many as 50 million slaves worldwide with as many as 100,000 within the UK (Harrison, 2023). CIPS blames the lack of appointing a commissioner to oversee the UK's Modern Slavery Act as one of the impediments in fixing the issue. They also point to the lack of corporate training and resources to identify slavery activities in supply chains.

WHAT DOES ALL OF THIS MEAN?

The bottom line is that slavery still exists in many areas of the world and is prevalent in supply chain operations. In 2023, the Fairtrade Foundation launched an online tool to promote transparency in supply chains and map human rights violations (a euphemism for modern day slavery). The goal of the tool is to support efforts mandated by the German legislation, the 2022 Canadian legislation and a directive working its way through the legislative pipeline in the European Union to require companies to map their supply chains to identify suppliers that are using slave labor and eliminate the practices. The EU directive is designed to assist companies in developing action plans and preventive measures to the adverse effects of slave labor and

human rights violations. The Open Supply Hub, a US non-profit organization, has created a similar tool for US based companies.

Everstream Analytics emphasizes that the supply chain is the lifeblood of the organization – a reiteration of the claim by Julian Thompson about Military operations and logistics from 1991 (1991). The Everstream staff goes on to say that most product managers have any idea what goes on in their product's supply chain (2023). This lack of knowledge is what allows modern day slavery to exist in supply chains.

The efforts in the EU, the UK, Germany and even in California may provide a good start to eliminating modern day slavery, but only if the ordinances and laws are enforced and violators identified and prosecuted. This does not seem to be the case to date. Pressures to get the global economy running again after the COVID 19 pandemic have helped to hide forced labor activities in supply chains.

Companies and governments continue to discuss the impacts and ills of modern-day slavery in supply chains but it is a lot like hot house actions – there is a lot of discussion, a lot of hot air but very little action being taken. Why? Primarily because consumers continue to push for lower prices and reduced inflation. The answer to the lower costs seems to be increases in modern day slavery and forced labor to keep costs down. The Global Slavery Index indicates that migrant workers are much more likely to be in forced labor situations than non-migrant workers (2023).

WHAT CAN WE DO?

Companies continue to promote, at least in theory, Employee, Sustainability and Governance (ESG) goals and Diversity, Equity, Inclusion and Belonging programs for their offices, but seem to be ignoring the same issues in their supply chains. A survey reported by Thomson Reuters (2016) reported that of over 1100 business leaders that responded to the survey stated that they only conducted due diligence on their first-tier suppliers. This level of reporting will never reveal to the leaders the extent of slavery in their suppliers' suppliers. The supply chain is much longer than just the first-tier suppliers. If we are to stop modern day slavery in supply chains, leaders have to physically walk their entire supply chain all the way back to the producer of raw materials and audit each level of the supply chain for compliance with human rights and anti-slavery measures.

Supply chain leaders have preached the importance of relationships in supply chains since before the term supply chain management came into use in the early 1990s. The time has come for leaders to lead. This means auditing the supply chain, educating supply chain partners, establishing fair labor practices to secure the integrity of their supply chains.

Customers for the most part want to do business with companies that establish and enforce ethical standards. Eliminating modern day slavery in the supply chain is not only ethical, it is imperative if we want to sustain human rights, corporate integrity and actually implement ESG and DEIB goals outside the four walls of the corporate headquarters.

Modern day slavery is as wrong as the slave practices abolished in the 1800s. In the US, we had to fight a war to eliminate slavery. While a physical war is not necessary, a war is necessary to

attack and eliminate the use of forced labor to produce goods and services in our supply chains. The time is now! Take action, walk the process, map your entire supply chain and identify and eliminate the use of modern-day slavery one supply chain at a time.

CONCLUSIONS AND RECOMMENDATIONS

Modern day slavery is alive and thriving in supply chains. Countries have attempted to stem the flow of slavery but have not put enough training and enforcement into their efforts. It is time to have the hard discussions in your supply chain. Do you know if you have modern day slaves working in any tier of your suppliers?

The more we discuss this difficult issue, the more companies will start looking at suppliers because consumers will start asking tough questions about the sourcing of goods and services. If we really want to set ESG and DEIB standards, this is the place to start. And the time is now!

In addition, the tough discussions on this topic need to be added to business school curriculums. This will get future business leaders discussing and thinking about the issue long before they rise to positions in the companies where they can impact the supply chain labor issues.

The UK 2015 Modern Slavery Act, much like the Germany and EU ordinances, requires organizations to submit reports annually. Just as Sarbanes-Oxley and the Committee of Sponsoring Organizations require financial audits and reports annually, companies need to report annually to shareholders and customers the audits of their supply chains for modern day slavery activities. Only when this becomes public knowledge will consumers force companies to abandon their unethical slavery behavior. When shareholders, stakeholders and customers become aware of the modern-day slavery practices, then and only then will change occur.

When modern day slavery activities are identified the common practice is to stop using those activities to prevent discrediting the company. This does not solve the problem. It only pushes the problem onto some other company that may not be aware of the practices. The solution is to not only stop using the supplier utilizing slave labor but also publicize the companies that are using these unethical practices. This will not only help curb the practice of forced labor but also raise the awareness throughout the supply chain industry.

Transparency in supply chains has been a buzz word for the past decade. The time is now to start making supply chains transparent by mapping your supply chain and auditing your suppliers all the way back to the sourcing of raw materials and eradicate modern day slavery in supply chains.

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